

FDIC State Profile

Spring 2005

Massachusetts

Revised payroll data indicate the recession was less severe in Massachusetts than originally reported.

- Restated payroll employment data cover the period July 2003 through year-end 2004. These new seasonally adjusted data show the recession ended in January 2004, a month earlier than originally reported. Also, total job losses were approximately 5 percent less severe than reported earlier (See Chart 1).
- Other new estimates covering 2004 show that the unemployment rate for Massachusetts was not changed by the revisions. The pattern of the decline during the year, however, was smoothed considerably (See Chart 2).

The new payroll data heighten disparities in employment performance across sectors.

- Before revision, the recession in Massachusetts was reported to be concentrated in information technologies and manufacturing. Although revisions to information technology employment were small, revisions to manufacturing were large and downward. The new estimates show that through year-end 2004, both sectors lost approximately one-quarter of the jobs that existed at the peak in February 2001.
- Revisions covering professional services were even more substantial, but upward. While this sector still suffered during the recession, the percentage of job loss was trimmed in the revisions by about one-third. The data now show a loss of one in ten jobs during this period.
- Health and education increased steadily over the period. The performance of the leisure and hospitality sector was nearly as strong; the two sectors each had job gains from February 2001 through 2004 of one in twenty.

Unemployment insurance claims show some improvement in Massachusetts.

- The recession was more severe in Massachusetts than in any other state. Peak-to-trough job losses in the Commonwealth exceeded 6 percent as compared with 2 percent nationally. As of January 2005, all job losses nationally had been recovered in the aggregate. However, for Massachusetts, only one-eighth had been recovered.

Chart 1: Payroll Employment Performs Better After Revision - Especially Early in 2004

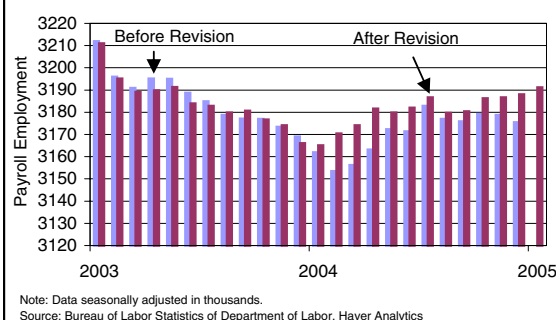


Chart 2: Revised Unemployment Rate Shows a Smoother Decline in the Last Year

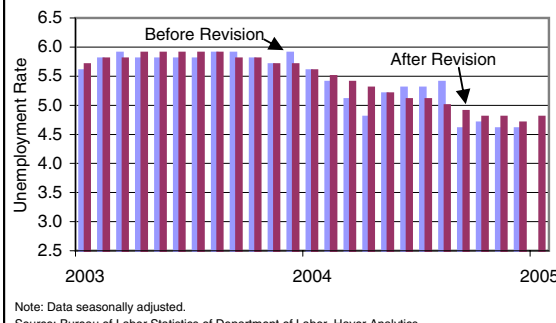
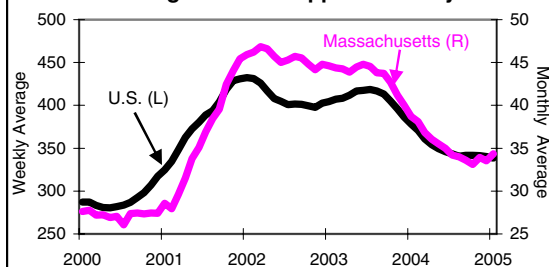


Chart 3: New Unemployment Claims Fell During 2004 but Slipped Recently



State Profile

- Initial unemployment insurance claims in Massachusetts continued to decline when measured on a six-month moving average basis (See Chart 3). The decline almost matched that of initial unemployment insurance claims nationally.
- The lower level of initial unemployment insurance claims experienced during the second half of 2004 provide an indication that job growth in Massachusetts will continue this year.

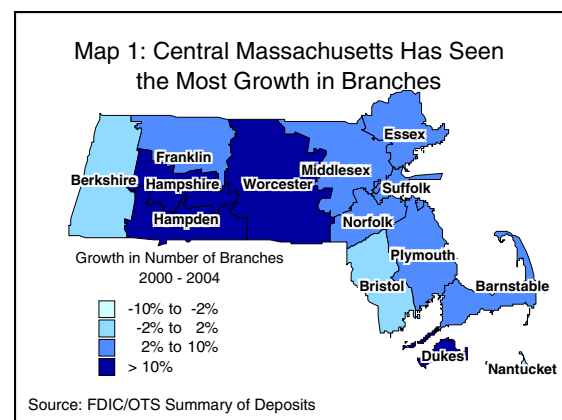
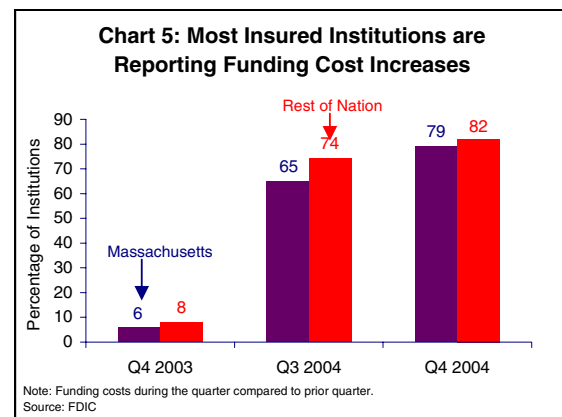
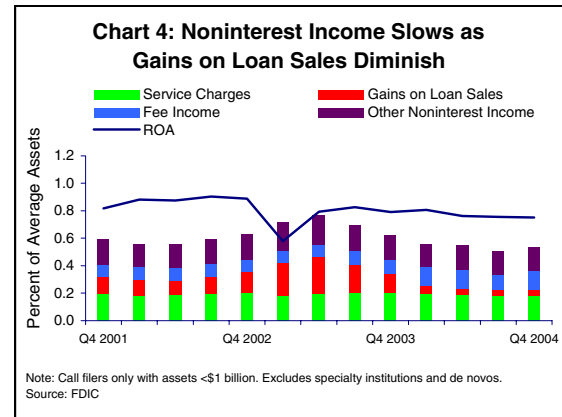
Noninterest income declines are hampering earnings growth.

- Community banks, like their larger competitors, have been attempting to diversify sources of income through fee and other service revenue generation. Efforts have produced some favorable results, but noninterest income levels declined in late 2003 and remained flat during 2004 (See Chart 4).
- Most notably, gains on loan sales have declined significantly from 2003 levels. Service charges on deposit accounts are a major source of noninterest income and have been flat perhaps in response to competitive pressures to maintain deposit share.

Banks are facing increased funding costs.

- The vast majority of banks have experienced immediate increases in overall interest expense (See Chart 5). The increase in the federal funds rate since June 2004 contributed to higher funding costs.
- Competition for lower-cost, nonmaturity (demand, savings, and money market deposit accounts) deposits is increasing in the market place as banks position their balance sheets to mitigate the effect of rising interest rates on net interest margins.

- Dukes County is the most heavily-banked area in all of New England, with one branch for every 353 households, according to data from Claritas Demographics. This is in sharp contrast to **Franklin County**, where the average branch serves 1,488 households.



Massachusetts at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.5%	-1.7%	-1.7%	-2.3%	2.9%
Manufacturing (10%)	-1.2%	-6.9%	-8.1%	-9.8%	1.5%
Other (non-manufacturing) Goods-Producing (4%)	2.4%	-3.0%	1.0%	5.0%	9.4%
Private Service-Producing (73%)	0.7%	-0.7%	-0.6%	-2.0%	3.1%
Government (13%)	-0.1%	-2.3%	-2.8%	1.2%	0.8%
Unemployment Rate (% of labor force)	4.8	5.7	5.6	4.6	2.7

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	3.4%	0.3%	1.5%	9.6%
Single-Family Home Permits	-4.9%	8.1%	0.4%	-2.5%	-9.6%
Multifamily Building Permits	59.9%	154.1%	-10.8%	-9.2%	-27.8%
Existing Home Sales	14.8%	13.8%	3.4%	2.3%	-11.2%
Home Price Index	10.7%	10.2%	12.3%	11.7%	14.3%
Bankruptcy Filings per 1000 people (quarterly level)	0.72	0.66	0.65	0.60	0.57

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	200	209	214	225	229
Total Assets (in millions)	224,188	214,167	201,963	185,235	173,655
New Institutions (# < 3 years)	1	2	3	2	3
Subchapter S Institutions	1	0	0	0	0

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.60	0.70	0.81	0.95	1.07
ALLL/Total Loans (median %)	0.91	1.02	1.01	1.00	0.97
ALLL/Noncurrent Loans (median multiple)	5.13	4.27	4.71	3.99	4.29
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.01	0.00	0.00

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.20	9.21	9.15	9.25	9.66
Return on Assets (median %)	0.68	0.76	0.83	0.81	0.89
Pretax Return on Assets (median %)	1.06	1.17	1.29	1.21	1.35
Net Interest Margin (median %)	3.49	3.54	3.73	3.60	3.73
Yield on Earning Assets (median %)	5.02	5.30	6.20	7.08	7.43
Cost of Funding Earning Assets (median %)	1.56	1.82	2.51	3.53	3.75
Provisions to Avg. Assets (median %)	0.03	0.03	0.04	0.04	0.03
Noninterest Income to Avg. Assets (median %)	0.41	0.49	0.44	0.41	0.39
Overhead to Avg. Assets (median %)	2.68	2.64	2.64	2.64	2.65

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	64.5	60.9	60.6	63.2	65.6
Noncore Funding to Assets (median %)	20.4	18.6	17.1	16.5	15.4
Long-term Assets to Assets (median %, call filers)	28.8	31.6	23.7	23.2	24.4
Brokered Deposits (number of institutions)	25	22	18	14	15
Brokered Deposits to Assets (median % for those above)	2.2	2.7	2.9	0.6	1.5

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	20.9	19.4	19.5	19.8	17.2
Commercial Real Estate	154.9	150.9	139.7	137.1	116.8
Construction & Development	29.9	28.1	21.4	22.2	18.3
Multifamily Residential Real Estate	14.5	10.9	11.0	11.1	10.5
Nonresidential Real Estate	86.4	83.6	80.3	79.7	75.4
Residential Real Estate	398.7	397.5	415.5	461.9	472.9
Consumer	6.9	8.6	10.7	14.3	17.4
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Boston-Cambridge-Quincy, MA-NH	160	141,784	< \$250 mil.	89 (44.5%)
Springfield, MA	24	9,973	\$250 mil. to \$1 bil.	89 (44.5%)
Worcester, MA	39	9,919	\$1 bil. to \$10 bil.	19 (9.5%)
Barnstable Town, MA	12	5,652	> \$10 bil.	3 (1.5%)
Pittsfield, MA	13	2,609		